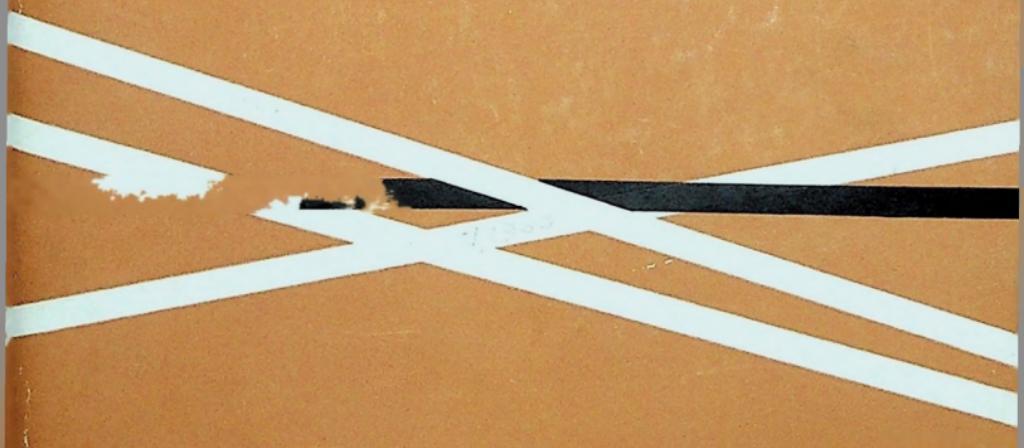


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Britain's Transport Crisis



A SOCIALIST'S VIEW

By Ernest Davies, ASSOC. INST. T.

A ROAD AND RAIL ASSOCIATION PAMPHLET Price 1/-

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Foreword

This is one of the first two of a series of pamphlets to be published by the Road and Rail Association.

Through them we shall present the personal and, perhaps, differing viewpoints of writers with considerable experience of transport matters. Also papers giving the results of research into particular problems.

The first two pamphlets present general surveys of the country's transport crisis, one by a Socialist and the other by a Conservative specialist.

This survey by Ernest Davies, formerly Labour's chief Commons spokesman on transport, and now editor of *Traffic Engineering & Control*, is published simultaneously with an analysis of Britain's Transport Crisis prepared by Geoffrey Wilson, M.P., Chairman of the Conservative Transport Committee in the House of Commons.

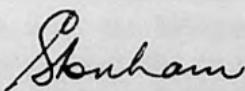
Further titles in the series will be announced later, and will be published at two-monthly intervals.

The Road and Rail Association, a non-party and non-partisan organization, is convinced that Britain needs *both* an up-to-date road system *and* a fully modernized, fully occupied, rail network.

We believe that the root cause of present transport troubles—the backlog of past neglect—has been accentuated by fruitless discussion of competing priorities. The problem is not one of Road *versus* Rail, but of Road *and* Rail. We aim to present an objective picture of this problem as a contribution towards its solution.

For this we must provide a platform for a number of experts, whose views we do not necessarily share.

They must, however, be given general consideration, free from doctrinaire prejudice or the pressure of vested interests, if Road and Rail are to play their full part in serving the nation.



LORD STONHAM
Chairman of the Road and Rail Association

Britain's Transport Crisis

A Socialist's View

Ernest Davies, Assoc. Inst. T.

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former Junior Minister. Chairman
of Parliamentary Labour Party
Transport Group, 1945-50 and 1951-59*

Introduction

It is doubtful whether there has been any prolonged period since the First World War when transport has not appeared to be in a state of crisis and, more often than not, before proposals framed to meet one crisis have had time to effect their remedy another has overtaken them. Thus, the post-war amalgamations of the railway companies into four main-line companies was no sooner effected than deflation and the onset of road competition prevented their standard revenues being earned. When the attempt to regulate this competition by introduction of licensing systems under the legislation of the early thirties was made, economic depression immediately swept the country and embraced transport. When the Square Deal proposals had been virtually agreed, the Second World War prevented their implementation. After the war, once the birthpangs of nationalization were receding, the political scene changed and an unscrambling process began. Thus each crisis has been met by resort to an *ad hoc* solution imposed on the old, with the result that today the country's transport system resembles

a sentence written on a second line; written and ...

a palimpsest. It has developed to no plan, and is subject to a miscellany of unrelated and often inconsistent controls and regulations after the circumstances to remedy which they were applied may have long disappeared. Some applied for one purpose are retained for another but many are outdated. There survives a thirty-year-old licensing system applied when motorized transport was still in its cradle, but the discipline applied to the infant is now administered to the adult. Price control introduced for the railways, when it was feared they might be culpable of monopolistic sin, is persisted in, although they are in danger of dying from the slow strangulation of competition. In theory, the transport system operates under a competitive system, but in practice it cannot reap the benefits it is alleged to provide, nor is it protected by those safeguards which are supposedly inherent in it because the controls imposed over it, and the obligations with which it is burdened, prevent it operating commercially and recouping its costs of operation.

The result of this unplanned development and stunted growth is a hybrid transport system. Its ownership is mixed, both public and private, it varies in size from the country's largest single undertaking, the British Transport Commission, to the road-transport owner-operator; from the restricted entry to haulage for hire or reward to the complete freedom of the ancillary user; from the imposition of price ceilings by the Transport Tribunal to the unrestricted free-for-all of the road haulier; from the public service obligations demanded by the Traffic Commissioners on road passenger transport, and by the Transport Users Consultative Committees on the railways, to the freedom of personal transport of goods carried on own account and private motoring. With this uncoordinated state of affairs, varying not only as between the different forms of transport but also between the several sections of the same transport form, it is not surprising that crisis follows crisis. In fact, it is remarkable that the transport system is as effective as it is at carrying an estimated 260 million tons of goods by rail and 1,000 million tons by road,¹ and, in 1959, 1,045,000 million passenger journeys by rail² and, in 1958, 13,839 million by road passenger transport,³ and heaven alone knows how many in the 7 million private motor cars. (References are listed at the end of the paper.) By and large, despite its contribution to the revenue, it operates at reasonable rates, if the inflationary rise in prices during the last two decades is taken into account.

Uncoordinated growth, heterogeneous development, and failure to resolve the consequent difficulties, have all contributed to the industry's difficulties and prevented it from fully exploiting that technological progress which has characterized the twentieth century. Railways and roads alike have suffered from capital starvation. Financial difficulties between the wars prevented capital investment which was essential if the railways were to meet the competition from the roads, which was largely responsible for the difficulties. The railways were a 'poor bag of assets' not because they were operating with Victorian technical efficiency in the Edwardian era, but because they were unable to keep up with the Joneses on the roads. Mentally, they had not emerged from the complacency of monopoly, and physically they operated in a 'Fanny by Gaslight' age. They had the technical know-how but not the means to employ it. This short-sighted policy of allowing investment in the world's most intensely used railway system to deteriorate so that its capacity was considerably under-employed was an appalling economic waste. At the same time as there was unused railway capacity there was growing congestion on the roads, which led to the need for considerable capital investment to provide a road system adequate to the growing road transport, which paradoxically had excess carrying capacity seeking to use inadequate road facilities. It would be difficult to assess which was the greater economic waste: the over-employed roads, with unnecessarily high operation costs arising from congestion and delay, or the under-employed railways with their large capital investment yielding an unremunerative return.

The last war aggravated the situation because the railways, required to carry a tremendous volume of traffic, were unable to effect normal renewals, let alone catch up with arrears or technological advance. Nor were they any better off in the immediate post-war years as, mistakenly, they were sent to the end of the queue for capital investment, where they found their old road friends also. With the end of petrol rationing, however, came further deterioration in the railways position relative to the roads, because road transport was now able to travel ahead. Although there was practically no new capital investment in the roads, there was in its rolling stock—the vehicles that use them—which gave road transport a further advantage over rail.

It is against this background that the post-war handling of transport must

be examined before any attempt can be made to consider possible ways in which its shortcomings can be made good and its difficulties surmounted.

Post-war Transport Plan

The Transport Act of 1947 was based on the principle that only with the unification of the chief means of inland transport could sufficient co-ordination be brought about to enable the transport system to be planned. Unification did not necessarily mean public, or even common, ownership of all forms of transport, but the public ownership of the major sections, including the railways, canals and long-distance commercial road haulage, with control or regulation of the balance, to enable the system to operate as a unified whole. This presupposes a partial monopoly of commercial transport because the plan's success depended upon restriction on new entries; otherwise the aim to eliminate excess facilities, which was essential to efficient low-cost transport, would be defeated. There were, of course, other ancillary reasons for transport nationalization but the basis was the establishment of a monopoly of all inland commercial transport by acquisition and its unified operation as a single undertaking. In the conditions prevailing at vesting day, January 1, 1948, it might have succeeded in its main objective, but it was doomed not to succeed fully because of the growth of private transport which was neither foreseen nor provided for. As introduced, the nationalizing measure included restriction on the ancillary user, those carrying their goods in their own vehicles, by limiting their activities to a 40-mile radius from their base of operation. This was considered adequate to ensure that all retail and wholesale distribution was exempt from restriction and, in addition, there was provision for the exemption of specialized traffics. These proposals were, however, dropped while the Bill was in Standing Committee. Competition between public and private transport accordingly continued and the whole basis of monopoly was undermined. With the ending of motor fuel rationing, rising production and consumption, and the gradual disappearance of shortages, C licensed fleets grew phenomenally in Britain as elsewhere. Political reasons may have had some bearing on this but probably very little as the same trend towards the carriage of goods on own account was seen in all industrial countries. It may have accelerated the tendency but no more, and this is confirmed by the fact that following

partial denationalization the trend was not reversed. Although the carriage of goods for hire or reward was controlled, this unrestricted growth in carrying of goods on own account led not only to some diversion from the railways but also resulted in their obtaining proportionately less of the increased traffic arising from higher production. Coming as this did during the period of acquisition and consolidation, and at a time when the railways were short of rolling stock, and in poor shape anyway, the trend towards private transport was further stimulated by the general dislocation within road haulage and the inability of the railways to provide as speedy, reliable and efficient service as industry required. In the event, during the first five years of its operation the British Transport Commission had advanced towards its objective of unified operation and had reached viability. Surpluses were earned, after paying interest charges on compensation stock and meeting other capital charges, in each of the years 1951, 1952 and 1953. Its Chairman, Lord Hurcomb, in presenting the Commission's annual Report and Accounts for 1951 was able to write:³

In this fourth year, the Commission reached financial equilibrium in their undertaking as a whole and a small favourable balance is shown, after meeting all charges properly chargeable to revenue, interest on capital in full and a charge of nearly £3 million for amortization of capital. If the Commission were able to proceed with their plans for the integrated development of their services under a suitable revised organization of their administration, and if they were permitted to adjust without undue delays the level of their charges to meet the costs of the various services provided, they would look forward with some confidence to the maintenance of the equilibrium achieved.

Whether Lord Hurcomb's optimism would have been justified is questionable, because irrespective of the political complexion of the Government, the Commission was still operating under severe handicaps, including the undiminishing growth in C licences, lack of capital investment which was required to enable competition with it, deprivation of freedom to adjust charges speedily, together with other restrictions on freedom of commercial operation, and the need to meet certain public service obligations. Some of these difficulties could have been overcome, and, with the achievement of consolidation, the centralized control deemed necessary at the outset could have been relaxed and an improvement in management brought about.

The main obstacle to that measure of monopoly necessary to successful operation, however, could only be removed with some restriction on the carriage of goods on own account, without which competition on equal terms with this form of private transport was impossible. Further, the inflexible capital structure of the Commission, which had been arbitrarily determined at take-over on the basis of Stock Exchange values for the railway companies and asset value, including goodwill, for road haulage, did not necessarily bear any realistic relation to earning potential. Since the Commission's entire capital was in fixed-interest stock, the charges on it had to be met, whether earned or not, and, although on the basis of its accounting system the Commission was paying its way, no reserves had been built up, and depreciation was almost certainly inadequate, being largely on historic and not on replacement cost. In sum, when a new transport policy was being formulated, following the return to power of a Conservative Government in 1951, the main objective of transport nationalization, unified control of inland transport under common ownership, had not been fully achieved because monopoly had not been complete, and could not be without private transport being brought in or so restricted as to prevent competition from it, and that had proved politically impossible.

Competitive Transport

The Conservative Government's transport policy, incorporated in the Transport Act, 1953, and subsequent measures, aimed to halt progress towards a road-rail monopoly of long distance commercial transport and to re-establish a competitive system. It proved no more successful because its policy could not be completely carried through. This was not because a large section of long-distance road haulage remained under the Commission's control after substantial disposals had taken place, but mainly because complete freedom of competition on equal terms was impossible. Pre-requisite to this is freedom for all transport to operate commercially, which includes freedom in regard to price-fixing and as to the services operated. Retention of any restrictions on rates, or of obligations in regard to maintenance of public services, prevent this. Such was the case. The railways were granted greater flexibility in regard to rates, but remained subject to the Transport Tribunal, which fixed ceilings and imposed an obligation to

charge reasonable rates in certain conditions; nor were the railways free to eliminate uneconomic services, approval to abandon which had in each case to be obtained from the Transport Users' Consultative Committees. Further, the Government had not the political courage to carry through its policy and frequently intervened in regard to such matters as wages and charges, in order to enforce its economic policies, or for political reasons, and this prevented their operation exclusively along commercial lines. Nor was commercial road haulage operation free from all restriction. It had freedom of rate fixing but not in regard to services because the licensing system, only slightly amended, remained fully in force. Both the railways and road haulage, restricted in these ways, were subject to the competition of firms operating on own account who were left with complete freedom of operation. Although, within this restricted framework, there was free competition between road and rail, it was still on an unequal basis, inasmuch as costs of providing and operating the services did not necessarily bear any comparable relationship one to the other. The railways were still required to meet their fixed charges arbitrarily fixed at the time of their acquisition, and also the total costs of maintenance, including their permanent way, while road transport had a heavy burden of taxation imposed upon it for revenue purposes but did not bear the capital cost of improvement or maintenance of its permanent way, the roads. Costs were therefore governed by these arbitrary and unequal obligations. For these reasons, among others, the Conservative Government's objective, a competitive transport system, could be no more successful than the planned transport of the Labour Government, and for the same reason. Neither had the political courage to carry its policies to their logical conclusion, to go the whole way necessary for their success.

This attempt to impose alternating policies of planning and competition, but to do so partially and not completely, had the inevitable result—a deterioration in the transport system, that is in so far as failure to pay, and to develop to the extent that technological progress makes possible, is considered a deterioration. True, having accepted that the railways must survive as an essential transport form for certain traffics, and in an attempt to make them more competitive, a capital investment programme, directed at modernization, was embarked upon in 1955. At the same time, there was greater capital investment in new construction and improvement of the

roads system. The former greatly increased the Commission's capital obligations which in time, and with higher interest charges, increased its annual losses which had to be financed by further borrowing which augmented even more its capital burden. Cost of the roads programme did not of course fall upon road users as its capital cost is met directly by the State, and there is no interest charge made upon them, but the programme remained quite inadequate to need, and operating costs were affected by increased congestion, particularly in urban areas.

Such is the setting in which the future of transport must be staged. The Commission is virtually bankrupt, and State-subsidized, and at the same time the roads system is unable to meet efficiently current demands made upon it, let alone provide for a predictable future demand. There is great economic waste on both arising from the unused capacity of the railways and the delays inherent in overcrowded roads. Competition between them on an equitable basis is impossible because costs are not comparable since the direct operating costs of both are added to by the indirect costs arbitrarily influenced by a capital structure which is unrelated to assets or earnings in the case of the railways, and in the case of the roads the incidence of heavy taxation, levied for revenue purposes and without regard to capital expenditure or to their maintenance.

Principles and Purposes

Against this background there are certain principles to which regard should be paid in determining and meeting the objectives of transport policy.

(1) Solutions based on political doctrine have failed, and whatever merit there might have been in them, the condition of the industry is such that action now is required. It cannot be afforded to permit the present situation, which threatens a further deterioration, to continue, nor to await the return of the Opposition to power. It must be accepted that policy must be based on the transport system as it now is.

(2) The objective must be to provide a low-cost transport system consistent with adequacy and convenience in order to protect our competitive position, particularly in Europe.

(3) With this country's density of population and its extensive urbanization, all forms of transport are required and must be provided.

(4) Subject to this, each form of transport has particular advantages, each is more economic and convenient for certain types of traffic, and its most economic use is best assured if the system as a whole is so operated as to encourage traffic to flow to the form which suits it best.

(5) The growth of motorization is inevitable, in fact, it can be predicted in relation to the growth in the national product. It must, therefore, be provided for both in motion and at rest.

(6) For these reasons, extensive capital investment in all transport forms is necessary; so great is it in fact that it can only be provided by the community. The State must therefore give high priority to finding the funds to finance road and rail alike.

(7) The aim must be to eliminate capacity excessive to predicted demand, although there must always be a margin available to meet peak demand and cyclical fluctuations. At the same time, essential public transport must be maintained and safeguarded against destruction by private transport. It is necessary to determine the extent to which public services, even if uneconomic, should be provided and how their costs should be met.

(8) Subject to the above, to ensure efficient operation, it is desirable that each means of transport be enabled to become viable and, to do so, it may be necessary to reconstruct its capital structure so that it bears a realistic relation to potential earning power, and its costs of operation are on a comparable basis also. But the standard of viability is not necessarily only the economic operation of the particular transport form. Where it is considered in the national interest to maintain uneconomic services, the benefit to the community it serves must be taken into account.

Road Goods Transport

How then can these objectives be reached? Examination of the difficulties of the transport industry since World War I reveals that in the main they have arisen from conflict between road and rail and failure for them to establish an economically happy co-existence. Since, however, they are not inherently incompatible, if the causes of the estrangement could be found and removed then they might be able at least to tolerate cohabitation. Both have a vital role to play within the transport system, the railways for instance being most suited for long-distance passengers and goods, and the roads for

short distances; the railways for heavy goods, and the roads for many types of specialized traffics; the railways for commuter traffic to the cities, and the roads within them. But if the freedom of choice is to be preserved, and direction of traffics is to be eschewed, then the most likely way to ensure that traffic uses the most economic form is to fix charges on a comparable basis. For this, it is less important that they be based on direct and indirect costs of operation than that they be similarly based, that is so that each bears a similar proportion of total costs so that they compete on as near an equal basis as possible. The extent to which charges should be so fixed as to enable them to meet all costs of operation, and all indirect costs including capital charges, is a matter of national policy, and it is for governments to decide whether the railways should carry the whole of the burden of capital charges based on historic cost, and to what extent the roads should be taxed for revenue purposes. Whatever the decision, it is important that the two be similarly treated. The alternative is a planned transport system under which restriction is used as a regulatory means, and charges are arbitrarily fixed to influence the flow of traffic to the possibly equally arbitrarily chosen form. Accepting that the choice of policy must be made within the present framework, and that the present political climate must be taken into account, the latter has to be ruled out for the time being, without any opinion being expressed here as to whether it is desirable or not.

Since, therefore, there must be greater equality of treatment, not only between different means of transport but also between public and private transport, then some change is necessary in the present restriction imposed by the licensing of commercial haulage and the exclusion from such restriction of private haulage. The licensing system was introduced to meet the growing chaos on the roads arising from the uncontrolled growth of road haulage at a time when the carrying of goods on own account represented only a small proportion of total road haulage. The extent of the growth of C licences could not be foreseen, but the possibility was not overlooked by the Salter Committee that the success of any licensing system introduced on its recommendation might be adversely affected thereby. In its Report, the Committee wrote: 'Difficulties may develop in connection with the rights retained for the ancillary user which will need to be dealt with by amendment.' They regarded their proposals as no more than constituting 'a reasonable basis for the development of road transport in accordance with the public

interest.⁴ From this it is clear that the Committee considered that allowing freedom of operation to the ancillary user was something of an experiment and would need to be reconsidered after a period of experience. This was confirmed by a further Committee which reported in 1936. The Baillie Committee on wages and conditions of service drew attention to the Salter Committee's qualification and considered the time for review had come. 'The evidence placed before us,' it concluded, 'has confirmed their anticipations that difficulties might arise which would call for revision of the position of ancillary users in the scheme of goods transport.'⁵ Reasons for reaching this conclusion underline the principles of the goods vehicles licensing system and how it was being undermined by the unregulated increase in C licences. It stated further:

'While we agree that it is desirable to give as much liberty as possible to the ancillary user to provide himself with his own transport facilities, it appears to us to be equally as necessary to protect the interests of the professional haulier and the public. It is assumed that the road haulage industry is indispensable to the public. The elimination of uneconomic competition from outside must be inconsistent with the maintenance and development of the industry. A licence to provide transport of goods for the public is intended not only to prevent restrictive competition with the road haulage industry, but to preserve the industry as a public service. It cannot be supposed that such a degree of unconditional freedom should be given to C licensees as to endanger the prosperity and even the existence of the road haulage industry as such.'

Since the Baillie Committee reported there has of course been a continued increase in C licences. Whereas at that time, April 1936, there were only 162,220 C licence operators with 329,195 vehicles out of about 450,000 licensed goods vehicles, which is less than three C licensed vehicles to every A and B taken together, by December 31, 1959, there were 1,137,897 C licensed vehicles and 150,950 A and B licensed vehicles, so the proportion had risen to more than seven C licensed vehicles to every one operating for hire or reward.

These changed circumstances call for a committee of inquiry into the licensing system. It was imposed to meet one set of conditions, and it is necessary to inquire whether it is suitable to the different ones prevailing today.

Meanwhile, simple restriction of C licences for its own sake with a view to helping the railways and commercial road haulage to recapture some of their traffic, or to prevent their share of total traffics declining further, might be a palliative but no permanent solution, as it would not touch the wider problem of road and rail because it would still leave them on an unequal basis. Consideration, however, of how restriction could be effected within the framework of the industry as a whole could point the way to settling the wider issue. Restriction of C licences could be by discriminatory taxation, or by bringing them within the licensing system by applying similar conditions of issue as apply to A and B licences. Taxation could be on the basis of ton mileage or per vehicle, with the C-licensed vehicles more heavily taxed than the others. One disadvantage of the former is that it might prove administratively difficult, although it works satisfactorily in Western Germany, but it would put up transport costs on all goods carried on own account, including those where to carry them so was essential to efficient production or distribution. The costs would be increased arbitrarily without any regard to costs of carrying goods by other means. On the other hand, to require applicants for licences to prove need should offer comparatively little difficulty. The applicant would have to justify his request to be permitted to carry his own goods in his own vehicle by showing that it was essential to the efficient operation of his business. To minimize the work of the licensing authorities, and to enable that proportion of traffic which was obviously more suited to this means of transport to continue to be carried in this way, certain categories of goods and vehicles could be excluded from proving need. These might include, among others, all vehicles exclusively engaged on short-distance work (although it would be desirable to provide for exemption for occasional longer journeys). Also, all vehicles below a certain unladen weight or carrying capacity and all traffics of a certain type might be exempt.

As stated, if such restriction, whichever form it took, were confined to C licences, an artificial restriction would be imposed without discrimination, and the wider problem of road and rail relationship would remain. If, however, a form of restriction on all road haulage could be devised with a view to influencing traffics to flow to the transport form for which they were economically suited, the door to the solution of the problem would be ajar and then further steps could be taken to open it wider by placing road and rail on an equal cost and pricing basis. The first step would be for the

licensing system to be reconstructed to require not only that all vehicles conform to the proof of need requirements but also be entitled to the exemptions in the categories of vehicle and traffic decided upon. All that would be necessary would be to bring applicants for C licences into the Road and Rail Traffic Act 1933 in similar fashion, that is, to make them subject to the same conditions as are A and B licences, appropriately amended. It would be necessary to add to the matters to which the licensing authorities would have to have regard in considering application justification on the grounds that the carriage of goods on own account was necessary for the efficient conduct of the business. C vehicles would still, of course, be deprived from carrying for hire or reward and A vehicles from carrying on own account. To relax these restrictions would wreck the licensing system because the commercial fleets would be swamped by the ancillary user if he were permitted to carry for hire or reward, and costs of operation would be entirely differently based and competition would become chaotic.

Apart from this, all goods haulage would be put on a similar footing, and the total amount of road haulage operating better related to need. It would therefore contribute towards reduction of the wasteful excess facilities and also bring benefit to the railways. Further, in regard to road goods transport, it would end the uncontrolled growth of private transport, and since that is a prerequisite to the solution of the road and rail relationship it would pave the way for its final solution. No progress towards this, however, can be made until the determination of costs and charges is similarly based. If this could be achieved it should then become possible to influence the division of traffics between the different means along economic lines. One way of doing so would be differentials in taxation within the road transport industry. In the same way as tapering of charges is used to attract long-distance traffic so tax differentials could be introduced as between short and long-distance traffic and light and heavy vehicles. A graduated system of taxation could be instituted for all vehicles—A, B and C alike—to discourage the carriage of heavy goods and long-distance traffic by road and encourage their carriage by rail. To effect this, taxation could be far more steeply graduated than now according to size of vehicle, carrying capacity, and possibly also by type of goods carried and area of operation. Particulars of all these have already to be declared on licence applications, and types of traffics and nature of journeys come within the normal user requirement.

The use of fiscal methods to cause traffic to flow to the best-suited and therefore most economic means of transport only becomes possible with the bringing of C licences within the same licensing procedure as commercial road haulage because only then would such taxation be effective in influencing those carrying goods on own account as it would other carriers. The imposition of discriminatory taxation for this purpose does not surmount the difficulty of raising the costs of all traffics without discrimination but it would be for the consignor of goods and the ancillary user to decide which form they use by balancing higher costs against all other considerations.

Road Passenger Transport

So far this examination of road and rail relations has been mainly limited to goods traffic. Somewhat different considerations apply to passenger traffic. Here the problem of private transport is equally acute although as yet it has not had the same disastrous effect on railway revenue as has the increase in carrying goods on own account. This is partly because for certain forms of travel rail is so obviously preferable, for long-distance and commuter traffic for example. It is important to realize that about 90 per cent of regular travel to and from work is still by public transport, both road and rail. Further, inadequate roads, and the consequent urban congestion, act as a deterrent to private transport, and by and large beyond certain distances it is probably still cheaper and more convenient to use public than one's own transport especially when parking charges are involved. Motorization is, however, certain to increase, and with it its competition with rail. To some extent this is being countered by flexible charging and modernization, and more successfully in the case of road passenger than goods transport. Apart from private transport, conflict between road and rail arises with public road passenger transport from bus and coach services. Restrictive licensing has, however, been more severe and consequently more effective. A Committee under the Chairmanship of Mr. G. A. Thesiger, Q.C., conducted an inquiry into the working of the system in 1952-3 and found it working satisfactorily and had only some comparatively minor amendments to recommend.⁶ This is possibly because the restrictive system has been used more to protect the railways and the public services generally than in the case of goods transport, and the licensing system has been largely

administered to that end. Consequently there is a nearer approximation of supply to demand as a result of the limitation on the number of vehicles, and by fare-fixing and the imposition of conditions of service. The last may include a requirement regarding provision of public services even when uneconomic, because once a service is authorized it cannot be varied or withdrawn without the Traffic Commissioners' approval. Fare fixing is of considerable importance too, since no flexibility is permitted and lower fares than those fixed cannot be charged. In any case, by and large, there is more co-ordination between road and rail on passenger than goods traffic. Were long-distance express services unrestricted, the problem of road-rail competition would be far more acute as is shown by the success of the coach services that use the London-Birmingham Motorway. But some competition exists—on convenience, comfort and speed—and in certain cases where railway modernization has speeded up travel and made it more convenient road services have suffered, especially since the railways are free to charge lower fares and the road services are not.

The difficulty of public road transport arises not so much from conflict with the railways as from social change and growth in private transport. In the towns, the problem is traffic congestion, which makes maintenance of timings, frequencies and regularity increasingly difficult, and this deterioration in services adds to costs and encourages resort to private transport including mopeds, scooters, motor cycles and cars. In rural areas, social change together with increased motorization is largely responsible for falling traffics, because the benefits from using one's own vehicle are comparatively far greater in rural than urban areas. The preservation of the public services is essential, but, in town and country alike, they are threatened by increasing use of private transport, which renders them uneconomic in the less densely populated areas and adds to the congestion in urban areas which interferes with their attraction. Further, they must cater for peak periods which with the shorter working week get concertina-ed into shorter and shorter periods and are consequently very costly to maintain. In either case, if charges are raised to economic levels the drift from public services is accelerated and they become in danger of pricing themselves out of the market. There are still, however, a great number of services which are economic, including services ancillary to the public services, such as tours, excursions and contract carriage, and it is these which have hitherto carried

the uneconomic. While it is doubtful whether many of the present unremunerative rural services can be made remunerative, the position of urban ones can probably be considerably improved by, for instance, the staggering of the commencement and finishing times of work, which persuasion has failed to bring about voluntarily and which may sooner or later have to be imposed, and by the improvement of traffic flow and the better planning and development of land use.

Generally speaking, heretofore, inadequate attention has been given both to public transport and provision for the motor car in connection with town planning. Since public transport continues to be used by all but a minority, its needs should be studied in relation to all urban development. Meanwhile, much can be done to improve traffic flow by scientific planning of road and traffic networks. Applications of traffic engineering methods can in many cases raise substantially the capacity of existing roads and, in doing so, the responsible authorities should give priority to keeping traffic flowing freely on the main arteries used by public transport. Relief of urban congestion is a subject in itself which goes beyond the scope of this paper but, although there is frequent reference to the strangulation of traffic in our cities, it is perhaps not sufficiently appreciated that in the process public transport suffers greatly and this has considerable impact upon the economic life of the community.

If the deterioration of public transport could be halted, and its improvement effected, then by cross-subsidization it would be better able to support essential uneconomic services. Justification for its being required to do so is that under the licensing system much public road transport is protected against competition from other road public services, it often enjoys a monopoly or a partial monopoly where it operates. In return for this, it was previously accepted that it should give a *quid pro quo* in the form of providing essential, but possibly unremunerative services, so that its whole operational area was reasonably served by public transport. Apart from some assistance that could be given by tax relief, as, for instance, exemption from motor fuel tax, the alternative to the abandonment of this principle is the subsidization by the community of the unremunerative services. Other things being equal, the larger the area of operation the better the opportunity for cross-subsidization, and, with the development of motorization and changes in travelling habits, many of the present operators now

operate within too small an area. Organization on a regional basis would probably contribute to the solution of the problem, but the larger the area and the longer the routes the more desirable it is that there be co-ordination with the railways. At present the Commission owns a number of bus and coach undertakings, in addition to London Transport, and has a substantial holding in many others. There is therefore already a considerable measure of co-operation which this common ownership facilitates, and which could be emulated elsewhere. Certainly, the planning and co-ordination of passenger transport on an area basis offers fewer difficulties than the planning of goods transport and is essential if public transport is to survive.

As regards the competition of private motoring with public transport, both road and rail, the answer is mainly to be found in improvement in services to make them where appropriate more attractive than personal transport. Railway modernization is directed to this end, and increasing road congestion may well make its contribution by acting in some cases as a deterrent. On the other hand, the building of national motorways is a stimulus to road transport and it might be contended that in consequence the railways, in regard to passenger traffic, in the long run can only hold their own. On the other hand, with modernization less than half accomplished, passenger travel is already at the highest level ever. For the railways to attract traffic their services offered must be highly efficient, fast, frequent and punctual, as well as clean, comfortable and convenient, and available at competitive prices; and the staff must be at least courteous and considerate. Unfortunately, these are not always true of British Railways today and, for some of their failings, dislocation caused by works in connection with the modernization programme can be called in aid. But there is another contributory factor of great importance: the poor state of morale among the staff, due in no small measure to the depressed state of the industry. Not only had this held back an improvement in working conditions necessary to put the staff on an equality with comparable industries, but it also created a sense of hopelessness and frustration building up to the fear among the staff that they were working in a dying industry. With implementation of Guillebaud and modernization, such depression should begin to disperse, but it cannot be completely removed until the Commission becomes viable and there are reasonable prospects of its remaining so. Prerequisite to this is formulation of a national transport policy and determination of the role the railways are

expected to play within it, and this requires resolving the road and rail problem discussed above. Only when steps have been taken to ensure the operation of the system on more secure and economic lines would it be of use to put the Commission on a sound, permanent financial basis. In other words, structural, managerial and financial reconstruction in themselves do not offer the solution. To succeed, all must be preceded by or accompanied with changes within the transport system as a whole to ensure that the difficulties of road-rail conflict, which have dogged transport since the 1920's, do not recur and perpetuate a situation in which financial bankruptcy periodically threatens the Commission at the same time as transport investment is wastefully employed. This is the *sine qua non* for an economic transport policy without which costly crisis will follow crisis and political solutions, which have bedevilled the transport industry for far too long because they have failed in their purpose, will again uselessly be resorted to.

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The Commission's affairs have, however, so deteriorated that, even if the solution to the road-rail problem were found, they cannot achieve viability without a drastic reconstruction. Their present financial bankruptcy arises from failure to achieve a working surplus because of railway losses. In 1957, for the first time since nationalization, the railways had a working deficit and revenue from the Commission's other undertakings of £23 million was insufficient to offset these railway losses of £27 million. Until the causes for these losses are removed, financial reconstruction in itself would not make the Commission solvent. Apart from the road-rail situation already discussed, causes for the losses are manifold but include the increase in total transport facilities available, inability to raise charges sufficiently speedily to meet rising costs, brought about by inflation and consequential higher labour costs, loss of traffic during the economic recession of 1957-58, including the decline in coal consumption.

The 1953 Act gave greater flexibility in charging, although the Commission is still subject to the ceiling imposed by the Transport Tribunal, and there has been some recovery in traffics with higher production, although the railways' proportionate share of all traffics still declines. On the other hand, there has been a jump in the wages bill with the implementation of the

Guillebaud Report recommendations. The result is that the working deficit on the railways for 1959 was £42 million. Owing to the cost of Guillebaud it is likely to exceed this in 1960, and Parliament has voted £105 million to meet the Commission's total deficit for 1960, and which for 1959 was £73·8 million. In these circumstances, it is necessary to consider whether the railways can ever hope to realize a working surplus again. The Commission look to rationalization and modernization, and the Government to changes in the Commission's structure, as well, including administrative and managerial reform, and they appointed the Stedeford Advisory Group of business men to advise them thereon.

When the 'Proposals for the Railways,' on which the modernization programme was based, were published,⁷ it was estimated that a working surplus could be achieved by 1961 or 1962. A reappraisal made in 1959 resulted in the conclusion that, thanks to some speeding-up in the programme and some amendments to the plan, the break-even point could still be reached in favourable circumstances although it might be a year or two later.⁸ Hope was expressed of achieving a net surplus by 1963, but it was pointed out that deferred interest charges would subsequently become payable and would absorb such surpluses. This hopeful forecast was dependent upon a number of uncertainties and was made before the cost of Guillebaud, now estimated at some £40 million, was known, but was no doubt based, first, on acceptance that the railways were essential, and second, that their turnover was so great that only a small rise in traffics was necessary to convert a loss into a surplus. This assumption is justified because railway operation, because of the heavy overheads and large capital investment, is very marginal. Since then, this optimism has had to be somewhat tempered, but hope of the railways reaching a working surplus has not been abandoned. Whether they can or not must depend on a great number of imponderables, including the state of the country's economy over the next years. Modernization and higher charges are of course accepted as not being sufficient; some streamlining of the Commission, and possibly some further managerial changes are also necessary. It should not be overlooked, however, that over the last four years the Commission have been evolving a more efficient administrative structure, combining financial control from the centre with a greater devolution of managerial responsibilities. This is a continuing process.

It is difficult to comprehend, however, how two proposals frequently

canvassed, and on which the Government is expecting the Advisory Group to advise, can make much of a contribution. The first is the granting of greater independence to the regions and making them financially autonomous. The second is the hiving off of some of the Commission's ancillary undertakings. As to the former, in the first years of nationalization, in order to effect consolidation, centralized control was necessary if the great and varied acquisitions of the Commission were to be merged into a single undertaking as the 1947 Act intended. Once this had made progress there was a move towards decentralization and the Railway Reorganization Scheme of 1954⁹, which set up Area Boards, carried this a long way, and administrative and managerial changes since have taken it to a point where the regions are largely independent as far as management is concerned, and, although they now have a large degree of freedom in regard to charges, within the restrictions imposed by the Tribunal, they still do not enjoy complete financial autonomy, and certainly not as far as capital expenditure is concerned. What benefit could be gained from separate regional accounting and financial autonomy it is difficult to assess. Certain of the regions are unlikely ever to operate at a profit. If, for instance, the Scottish Region were required to do so charges would have to be raised to such a level that it would be injurious to Scotland's economy, and in any case the railways would be in serious danger of pricing themselves out of the market. It is also questionable how greater decentralization could be granted without the advantages derived from a certain amount of central control of policy and the benefits of standardization it makes possible being diminished.

Theoretically, the main reasons why British Railways fail to work to a surplus is failure to attract sufficient traffic to cover costs, on the one hand, and inability to make such charges as would cover direct operational costs and leave sufficient margin to meet the heavy indirect costs, taking the railways as a whole. The extent to which organizational or managerial failings are responsible for failure to attract adequate traffic, or how far it results from the present state of the transport industry as described above, is open to debate, but no changes, however imaginative, in the administration can overcome these handicaps, and it is these to which the greater attention needs to be given.

It is necessary, however, to consider whether the railways' pricing policy

is so based as, on the one hand, to ensure the attraction of maximum traffics and, on the other, that charges cover the costs of each specific service—that is, that at least direct costs are met by particular types of services. To the extent that costing of specific services is possible the Commission stated in its 1950 Report that costs per passenger mile of main line express and cross country services were low in comparison with stopping and branch line services which are high and often unremunerative. Branch lines, where it is found that dieselization would not bring sufficient increased traffics to eliminate losses, are as a rule closed down, but this is to ignore the public service aspect. However, this policy is being pursued, but the process is slow because of public resistance to closure even by those who use their own personal transport to attend meetings of protest. But the contribution that elimination of unremunerative services can make is limited, and if all the lines scheduled for closure within the next few years are closed the saving will be small compared to total losses. Other operational economies can of course be effected, and the Commission is continuously in search of them, but by and large a working surplus can only be won from additional revenue which can come from both augmented traffics and, where the traffic will bear them, having full regard to competition, from higher charges. Modernization is directed at increasing traffics, or at least at holding the railways' share of those offering. Whether this result is obtained largely depends upon the skill with which use is made of the flexible charging powers it now has, and from the use of additional freedom which should be granted, including release from the restrictive influence of the Transport Tribunal. While it is probably true that in the past insufficient regard has been paid to the costs of individual services in fixing charges, no railway system can operate without some cross-subsidization. The principle that charges be so determined so that remunerative services meet the costs of unremunerative ones probably can be departed from far less in the railway industry than any other service except the Post Office, where it is universal. Further, its susceptibility to competition from other services and from personal transport means that it can easily reach the point of no return, that is price itself out of the market. With so high a level of fixed costs, which must in any case be met, charges need to be finely balanced, because a very small gain or loss of traffic can make the difference between a surplus and a loss. In these circumstances,

room for manoeuvre on charges is very limited, except in the case of monopoly traffics, of which there is a diminishing amount in any case. Within these narrow limits every effort needs to be made to relate charges to costs wherever possible, in order that full advantage be gained from the establishment of road and rail on an equal competitive basis, which as contended earlier is a prerequisite to viability. As far as operations are concerned, therefore, improvement of services and the economies that should result from modernization, together with some streamlining with the elimination of some unremunerative services, and skilful use of powers to make discriminatory charges, full regard being given to costs wherever practicable, all should result in some improvement in earnings. Whether this will lead to a working surplus or not, however, cannot be predicted with any confidence because it depends on too many imponderables as well as on whether the road-rail relationship can be satisfactorily resolved.

As to the proposal that the Commission dispose of certain of its undertakings not essential to railway operations, since they earned surpluses of £10·1 million last year, which reduce the railway loss, no financial benefit would result, nor is there any reason to believe that they would operate more profitably if hived off. These services also make their contribution to central charges, and it is unlikely that their disposal would realize sufficient to enable capital repayment to such an extent as to save interest equivalent to their present contribution. Further, certain advantages accrue from these ancillary undertakings, many of which were inherited from the railway companies who established or acquired them for this very reason or to meet competition. For instance, common ownership of the British Road Services and the Scottish and Provincial buses enables some measure of co-ordination while the Commission's ownership of London Transport, although operated by a separate Executive appointed by the Minister of Transport, facilitates its working in with the rest of the transport serving the Greater London area. A greater contribution than disposal of its undertakings could probably come with the removal of any remaining restrictions on the Commission's freedom to expand and develop its present assets commercially, including its properties where at present its hands are partially tied. On the other hand, if with the carrying out of the recommendations of the Bowes Committee on canals and inland waterways¹⁰ it were relieved of certain obligations in regard to them, some benefit would accrue.

One advantage claimed by those who advocate hiving off some of the Commission's undertakings is that it would leave the Commission free to concentrate on its chief undertaking, the British Railways. Since all are separately managed, either by an Executive, as London Transport, or boards of management, as are British Road Services, Hotels and Catering, Docks and Harbours and Inland Waterways, or by Boards of Directors, as the Scottish and Provincial bus companies, there is no reason to believe this would be the case.

B.T.C. Capital Structure and Finances

Whatever the view taken concerning the ability of British Railways, and consequently the Commission, to break even by the time the main part of the modernization programme has been completed, before any further reorganization of its structure is undertaken, be it in regard to future responsibility for its several undertakings or managerial changes, a further assessment of its likely revenue position is necessary. This cannot be, however, of any permanent value unless the effects of adjustment of the road-rail relationship are taken into account. This is an added reason why such determination of a national transport policy must come before the reconstruction of the Commission. Only then will it be possible to forecast with any chance of approximate accuracy. Once future possibilities of attaining a working surplus are assessed, consideration can be given to its capital liabilities, which in any case can in no circumstances be carried at their present level. In last year's reappraisal, the Commission implied some relief from these liabilities was inevitable when it stated:

'If the Commission are to be put in a position to pursue consistent policies on a long-term basis, it seems essential that in due course their financial structure should receive consideration afresh.'

The Government have accepted this, though somewhat obliquely, by assuming responsibility for further deficits until the Commission's financial future is decided, by budgeting for £105 million for the current year above the line. The mere size of the accumulated liabilities and the manner in which they are made up makes some reconstruction inevitable. Compensation on acquisition of its railway undertakings which was met in Transport Stock carrying 3% interest amounted to some £1,200 million with interest charges

of some £36 million. This can be considered as historic cost of the assets transferred, but as these were based on Stock Exchange value for the railways and, for the most part, on asset value plus goodwill for the rest, the valuation was arbitrary and bore no certain relation to value of assets or earning power. In view of the condition of the railway assets on transference—Dalton's 'poor bag of assets'—replacement cost was considerably greater as events have proved. The revised cost of the modernization plan is some £1,660 million which represents the virtual rebuilding of the railway system, but depreciation and renewal reserves should provide about half of this. It is interesting to note that subsequent net borrowings brought the amount of Transport Stock, after allowing for repayments to a further £1,440 million up to the passing of the Finance Act, 1956, since when advances have been obtained from the Treasury and not from the issue of Stock, and these totalled £325 million by December 31, 1958. Without allowing for deficits therefore the Commission's capital liability was £1,769 million carrying an interest obligation of some £57 million a year. Since 1956 deficits and interest thereon have been met by Government loans and repayment of both deferred under the terms of the Transport (Railway Finances) Act 1957.

In its reappraisal, the Commission estimated that by 1963, when it was assumed the Commission would be earning a small working surplus, central charges, excluding interest on deficit advances, would be about £85 million. Thereafter interest on deficit advances would become due and start at £5 million, rising to £25 million by 1965. This means that by the time a reasonable surplus is expected charges will require over £110 million, nearly twice the present amount. However successful is the combination of modernization with flexibility of charges and managerial reform, such a sum can never be met out of working surplus. It must therefore be taken that even with further deficits being met by the Government, the charge on the indebtedness so far incurred is too great to be carried, and the repayment of the debt impossible. In fact, it cannot be disguised that the Commission have already been subsidized since the deficits will prove not to have been repayable borrowings but irrecoverable debts which will have to be waived. Even if the Commission's indebtedness incurred through deficit financing is written off, as it should be, the Commission's liabilities incurred on acquisition, and since, would still be too heavy to be met, totalling as they will some £85 million a year in interest. Some readjustment of the Commission's capital liabilities is therefore essential, and should be on such a

scale as to ensure that they are reduced to a level which it is estimated in normal economic conditions over a period could be serviced out of the predicted earnings. Difficulty arises in the assessment of presumed earnings since they are highly susceptible to cyclical fluctuations, and will be influenced by transport technological development, some of which can be anticipated, such as the construction of pipe lines for bulk carriage, and others which are less certain, such as the use of helicopters for inter-city travel, and the hovercraft. It might, therefore, be advantageous if the servicing of capital were made to some extent dependent upon earnings. One great disadvantage under which the Commission have operated is that their total capital is in fixed-interest stock which must be serviced irrespective of earnings. This needs to be kept in mind when considering the form capital reconstruction should take. There is, possibly, an alternative approach to what has heretofore been a hopeless struggle to match earnings to fixed-interest charges and that is to consider the reverse procedure, to match these charges to earnings.

If a public company were faced with a similar situation to that of the Commission, and had to cope with mounting losses, it would first stop payment on its equity capital, then default on its fixed charges and finally write down its capital for which it would have to obtain its shareholders consent. None of these steps can be taken by the Commission. It has no shareholders, although its Transport Stock is held by the public, and as the Stock is Treasury-guaranteed it is a liability of the State to whom the Commission is indebted for the balance of its capital. Interest on the Stock cannot be defaulted, nor can the capital be written down in the same way as it could be by a limited liability company. Since however the total capital is, in the last resort, a government liability, the burden could be transferred from the Commission to the State. This, in effect, would mean that the Commission was in receipt of a permanent subsidy to the extent that the interest charge was assumed by the State. If this were decided upon, the difficulty would arise as to which part of the stock, and how much, should be so serviced by the Treasury, and which and how much by the Commission. The compensation stock totalled about £1,200 million and largely comprises Transport Stock, with an interest charge of about £36 million. It has been argued, notably by the National Union of Railwaymen,¹¹ that since the assets for which this compensation was paid were worth far less, and since they are not earning the interest on this stock,

the liability should be assumed by the State. Whether the State assumed liability or not it should not be on these grounds but out of sheer necessity because apart from the fact that, in view of the figures of losses already given, to waive this £36 million of annual interest might be insufficient to get the Commission out of the red, it would be unrealistic to accept this contention, because, however poor the assets and inadequate the earnings thereon, the 3% interest charge is by current rates of interest low and the railway system, together with its ancillary undertakings, was transferred from the previous stockholders to the Commission by this transaction and is of considerable value. More reasonable might it be to argue that the modernization of the railways should be a State charge in the same way as is the modernization of the roads. Government loans for capital investment from the inception of the programme might be interest-free and indefinitely deferred, and repayment waived. Again, whether the consequent limitation of the Commission's capital liability to the original compensation stock and subsequent borrowings, for miscellaneous purposes but not for capital investment (or of course deficit financing), would reduce the burden to a tolerable level would of course still be open to question. In view of the difficulty of fixing the capital charges at a level which the Commission can be expected to meet out of working surplus in good and bad times, and in the light of unpredictable developments both economic and technological, by waiving any part of the capital charges by transferring liability to the State would be to act arbitrarily, inasmuch as the future capital charges might still bear no real relation to potential earnings. Although at the time they were fixed they might appear to be well covered by predicted earnings, in practice, difficulties might be encountered and price-adjustment—of fares and charges—might be neither in the national interest nor bring in the necessary revenue because of diversion of traffic to other transport. From the recent history of the Commission, and the manner in which its finances have been dealt with and its liabilities grown, arises this great difficulty of predicting with any likelihood of accuracy if and when British Railways can earn a working surplus, its extent, and whether it can be maintained in face of such uncertainty. Since potential earnings on which a tolerable capital charge can be based cannot be predicted, and since in any case it is equally impossible to put a realistic value on the Commission's capital, it is necessary to approach the problem from the other angle, that is to consider whether the capital liability can be made dependent upon

earnings. This would entail the Government assuming responsibility for servicing the whole of the Commission's capital, and in return receiving a contribution from the Commission according to earnings. This contribution could be considered either as the Commission's share in the interest charge or, alternatively, the Government could convert the Transport Stock into direct government obligations and receive in return equity capital in the Commission, on which dividends would be paid only when earned. A number of objections can be raised to this similar to those against subsidies but, in effect, it would merely be accepting the position as it now is and the necessity for relieving the Commission for all time of its insupportable capital burden. The great advantage of this once-for-all operation is that the necessity for permanent subsidization is removed provided the Commission breaks even on its operations, which it would clearly be enjoined to do once the reconstruction had been effected. Whichever method is preferred, difficulty arises in determination of the amount to be paid to the State each year as interest or on the equity stock.

In view of the difficulty of estimating on what proportion of the capital the Commission could be expected to meet interest charges in a reasonable state of the economy, assumption by the State of the total of the Commission's capital would probably be preferable to leaving any part with the Commission. Earnings might then be divided according to a graduated scale between the State and the Commission. In this way, some incentive would remain with the Commission to achieve maximum possible earnings, since the better its earnings the more it would retain to plough back into its reserves.

Choice of the method for financial reconstruction of the Commission is of less importance than acceptance of its necessity and carrying it through in such a way that the Commission knows where it stands, that is, that it is put in a position in which it has a reasonable expectation of meeting its expenditure out of revenue and covering whatever capital liabilities it still retains. Nothing is guaranteed more to undermine the morale of any industry or service which is expected to run on commercial lines than the knowledge that it is accumulating losses and has little prospect of operating profitably. Such is the position of the Commission today. Unless therefore the Commission is to cease to be required to operate commercially, and is to be run purely as a public service, in which case it would have to come more directly under the control of a government department, it must be put in a position where it can fulfil what is demanded of it.

Conclusions

The prerequisite to an efficient and economic transport system, serving the nation's needs by providing adequate and convenient services at an economic price are first, that the relationship of the several forms of transport be such that all operate on a comparable basis, that is, on one of equality; and, second, that the financial house of the public sector be put in order so that it can run its business in the expectation of meeting its obligations and fulfilling the functions assigned to it, and consequently be entitled to be left free from external political interference.

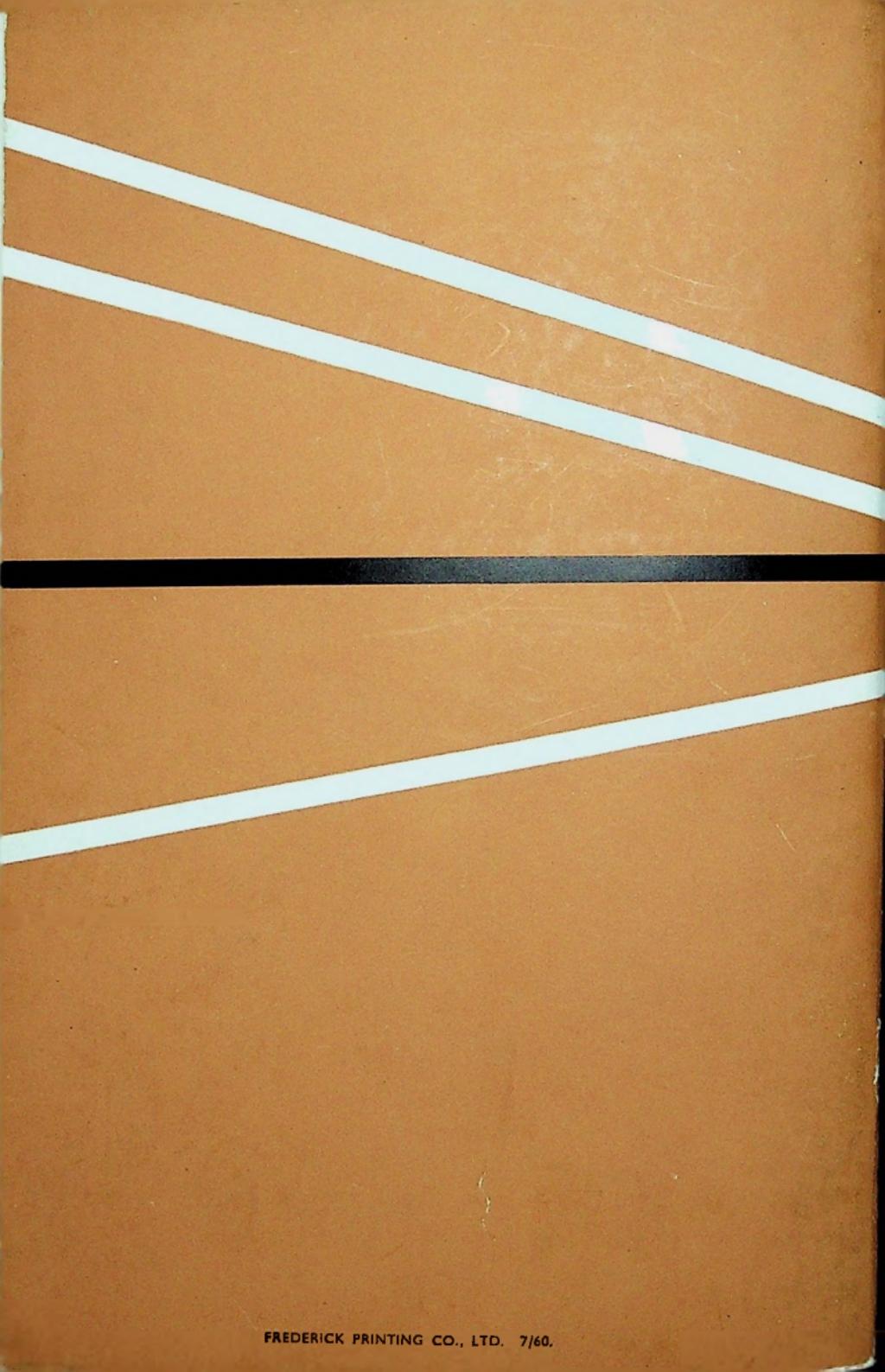
Steps recommended to these ends which are discussed above include:

1. That the relationship of road and rail be re-examined with a view to establishing a comparable basis of operations, particularly in regard to the enjoyment of similar freedom of commercial operation, and both being subject to similar restraints; and in regard to costs and charges, that they be similarly based, and directed to encourage traffic to flow to the most suitable form of transport.
2. To achieve this for goods transport an inquiry into the working of the present licensing system is desirable to ascertain to what extent it needs to be reconstituted to meet the changed circumstances of today.
3. The encroachment of the carriage of goods on own account on all commercial haulage—road and rail—requires that the ancillary user be made subject to the same requirements as the haulier carrying for hire or reward. That is, that he should have to prove that the carrying of his goods in his own vehicles was essential to the efficient and economic operation of his business. Vehicles below a given size and carrying capacity should be exempt from this requirement as well as those engaged in certain types of operation, e.g. retail and wholesale distribution, and the carrying of specialized traffics.

4. Further to encourage traffics to use the most suitable means of transport the incidence of taxation should fall heaviest on the larger vehicles and those with the largest carrying capacity, and those operating over long distances irrespective of whether carrying goods on own account or for hire or reward.
5. With increased motorization and the growth in private transport co-ordination of passenger services becomes even more urgent and can best be obtained at a regional level.
6. Special steps should be taken to preserve the road passenger public services and should include priority being given to their needs in schemes for road improvement and the relief of road and traffic congestion. Traffic engineering methods and techniques should accordingly be applied to obtain the greatest capacity from existing roads.
7. Road passenger services should be exempt from motor fuel tax.
8. Neither regional autonomy, nor the hiving off of their ancillary undertakings, can provide the solution to the Commission's financial insolvency. Some streamlining of its operations, and more efficient management, combined with modernization, should bring about some reduction in railway losses, and some higher charges on selected traffics should increase revenue, but it is most unlikely that the Commission can be put in a position where it can meet its capital liabilities.
9. Reconstruction of the capital structure of the Commission is essential but, because the future of the transport industry is unpredictable because of the inability to predict the earnings of the Commission, no arbitrary partition of capital liabilities as between the Commission and the State can be made with any certainty that the Commission will be able to meet the liabilities assigned to it.
10. The State should assume full responsibility for the total capital of the Commission and its servicing and receive in return an equity holding in the Commission. If a working surplus is achieved it could be divided on a graduated scale between the State and the Commission.
11. Meanwhile the Commission's indebtedness to the State arising from both its past deficits and accumulated interest thereon, and from borrowings for modernization should be waived.

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